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Mr. Chairman, thank you very much for the invitation to discuss the current state of the farm economy. My intent is to provide the Committee with information on the current situation and outlook for U.S. agriculture as you begin your work on developing a replacement for the Federal Agriculture Improvement and Reform Act of 1996 (1996 Farm Bill). I will describe the current situation in major commodity markets, the financial well-being of farmers, and the prospects for economic recovery. While the overall farm situation of the past couple years of generally weak markets continues, there are early signs of recovery and many indicators continue to remain favorable, including farm asset values and debt levels, due in large part to record government payments the past two years. Global economic prospects are improving, global stocks of major crops are not excessive when compared with use, farm prices are generally up compared with one year ago, and reduced plantings could lead to a further tightening of stocks in 2001. However, a strong rebound in farm prices and income from the marketplace for major crops appears unlikely at least over the next couple of years in the absence of a major global shortfall in crop production. Under current legislation and programs, assuming no supplemental payments, net cash farm income in 2001 is projected to be the lowest level since 1994 and about $4 billion below the average of the 1990s.

General Overview

The U.S. economy continues to enjoy its longest expansion in history. Strong income growth, low unemployment, surging productivity, low inflation, and interest rates have made life better for most Americans. Production agriculture has been helped by some of these trends, such as strong income growth, low interest rates, and new technology. However, production agriculture has been particularly vulnerable to foreign competition, a strong dollar, economic recession in foreign countries, and increases in energy costs.

As we assess the prospects for 2001, many agricultural commodity markets show signs of improvement in their market fundamentals. In January, the index of prices received for all crops was up 4 percent from a year ago and the index of prices received for livestock was up 6 percent. Nevertheless, commodity prices are generally recovering from historically low levels. For the 1999/00 marketing year, the average price of soybeans was the lowest since 1972/73, the prices of corn and wheat the lowest since 1986/87, the price of rice the lowest since 1992/93, and the price of cotton the lowest since 1974/75. Cattle and hog prices were also relatively weak in 1999 but recovered more sharply than major crop prices in 2000. Milk prices were relatively strong in 1999 but fell to a 9-year low in 2000.

In addition to historically low agricultural commodity prices, many producers the last several years have been adversely affected by weather-related problems and, more recently, increases in prices for energy-related inputs. Soil moisture levels remain very low in parts of the Southeast, most of Florida, west Texas, and portions of Montana. In addition, Sierra snow pack levels, which provide water to California's reservoirs for electricity generation and farmland irrigation, while improving

continue well below normal.

Congress responded to the problems caused by low prices and adverse weather by providing nearly $25 billion in supplemental assistance to farmers and ranchers the past three years, greatly limiting the farm financial stress that farmers and ranchers would otherwise face. These supplemental payments plus payments authorized under the 1996 Farm Bill pushed government payments to a record-high level $22 billion in calendar 2000 and Commodity Credit Corporation (CCC) outlays to a record $32 billion in Fiscal Year (FY) 2000. Lower government payments are projected to reduce CCC outlays to slightly over $20 billion in FY 2001. Had Congress not provided nearly $9 billion in supplemental assistance in 2000, net cash income would have likely fallen to $47.5 billion in 2000, the lowest level since the farm financial crisis of the mid-1980s. Instead, net cash income reached $56.4 billion in 2000, nearly $2 billion above the average of the 1990s.

Outlook for U.S. Agricultural Exports

In the mid-1990s, the value of U.S. agricultural exports rose sharply peaking at a record $60 billion in FY 1996, up by more than one-third from just two years earlier. During the mid-1990s, a confluence of factors boosted exports: world gross domestic product (GDP) grew at an annual rate of 3 percent, compared with less than 2 percent during the early 1990s and global grain and oilseed production fell about 4 percent.

The surge in exports led many to conclude that U.S. agriculture was entering a period of long term prosperity--continued and steady increases in world economic activity would be enough to keep farm prices strong even with normal weather. Obviously, that long-term forecast did not materialize. Good weather and strong prices led to an abrupt turnaround in world crop production, which increased sharply in 1996/97. Then, in 1998, world economic growth, excluding the United States, fell to a paltry 1.3 percent. The slowdown in growth combined with continued strong crop production caused crop prices to decline sharply.

For bulk products, such as feed grains, wheat, soybeans, cotton and rice, export value declined one-third from FY 1996 to FY 2000. Lower export prices accounted for nearly all of the drop in export value of bulk commodities, as export volume fell only slightly. In contrast, the export value of high-value agricultural products remained nearly steady at about $32 billion during FY 1996-2000. In FY 2001, the value of bulk exports is forecast to increase $1.5 billion to $19.3 billion, remaining well below FY 1996's $28 billion, while the volume of bulk exports is expected to exceed FY 1996's 119.3 million tons. The export value of high-value agricultural products is forecast to increase to $33.7 billion in FY 2001, and the value of all agricultural exports is expected to reach $53 billion this fiscal year, up from the recent low of $49 billion two years ago, but still well below the record reached in FY 1996.

The turnaround in several key macroeconomic indicators make the outlook for higher exports more positive than it has been in some time. World GDP, excluding the United States, grew nearly 4 percent in 2000, the largest rate of growth in more than a decade. In 2001, world GDP, excluding the United States, is expected to slow from last year's high rate but continue strong at slightly under 3.5 percent. Many countries that were in recession in 1998 and 1999 are now registering strong rates of growth. Following the 1998 Asian financial crisis, South Korea's economy grew nearly 11 percent in 1999 and over 9 percent in 2000, and economic growth in Southeast Asian countries rose to 3.6 percent in 1999 and to almost 6 percent in last year. In addition, several Latin American countries had positive growth in 2000 after being in recession 1999.

Another key factor for U.S. exports is the U.S. exchange rate. The value of the dollar has increased sharply in the last several years, increasing the cost of U.S. farm products to foreign buyers and the cost of U.S. agricultural products relative to those of our competitors. Between April 1995 and September 2000, the U.S. real agricultural trade-weighted exchange rate appreciated by 25 percent, reversing about a decade in which the value of the dollar declined relative to other currencies. Over the same period, the U.S. dollar appreciated 42 percent relative to currencies of U.S. agricultural competitors. Declining interest rates and a slowing economy should weaken the dollar in 2001, making U.S. agricultural products modestly more attractive to foreign buyers.

Outlook for Farm Income

In 2001, farm cash receipts are forecast to reach $200 billion, up $4 billion from last year. This would be the second highest level of farm cash receipts surpassed only by the record high of slightly under $208 billion in 1997. Compared to 1997, crops receipts are projected to be down $11 billion in 2001, while livestock receipts are forecast to be up about $3 billion. Compared to last year, livestock receipts are projected to be about unchanged at slightly under $100 billion in 2001, while crop receipts are forecast to increase by $3.6 billion to slightly over $100 billion. These aggregate figures mask steep declines in cash receipts and income for major crops and milk. Cash receipts for grains, soybeans, and cotton declined from a record $57 billion in 1997 to $43 billion in 2000 and projected to increase slightly to $45 billion in 2001. In 2001, dairy receipts are forecast to be up about $1 billion from last year, but remain well below the record of $24 billion in 1998.

Assuming no supplemental assistance for the 2001 crops, net cash farm income is projected to decline from $56.4 billion last year to under $51 billion in 2001, as production expenses continue to rise and government payments decline. Increases in petroleum prices and interest rates along with higher prices for other production inputs, including hired labor, increased farmers' production expenses by 4 percent or $7.6 billion in 2000, with higher fuel and oil prices accounting for over one-third of the increase. In contrast, farm production expenses rose only 1 percent from 1997 to 1999.

In 2001, farmers' total cash production expenses are forecast to increase $1.5 billion to a record $179.5 billion. Even though total planted acreage is expected to fall in 2001, higher natural gas prices will increase expenses for nitrogen fertilizer. Expenses for hired labor, repairs, and marketing could also continue to trend up in 2001. Fuel expenses are expected to be about unchanged from last year, as petroleum prices are forecast to moderate later this year. Despite recent interest rate reductions by the Federal Reserve, farm business interest expenses are projected to remain about steady in 2001. While about two-thirds of bank nonreal estate loans made in 2000 are variable-rate loans, these loans adjust at regularly scheduled intervals and lag the Federal Reserve rate.

Government payments have offset much of the decline in cash receipts for major crops, thereby helping to maintain producers' cash flow. Direct government payments to farmers increased from under $8 billion in 1997 to a record $22 billion last year. In 1997, farmers received $6 billion in Production Flexibility Contract (PFC) payments and about $2 billion in conservation program payments. In 2000, direct government payments included nearly $5 billion in PFC payments, $6.4 billion in loan deficiency payments, $2 billion in conservation program payments, and nearly $9 billion in supplemental assistance. Loan deficiency payments were authorized under the 1996 Farm Bill and are available to producers whenever the prevailing market price (world price for cotton and rice) for a particular commodity falls below the price support loan rate. Producers did not receive loan deficiency

payments in 1997 because prevailing prices exceeded the announced loan rates for program crops (feed grains, wheat, upland cotton, and rice) and oilseeds. Because government payments are tied to both historical and current production of major crops, the largest farming operations receive most of the payments. In 1999, the 14 percent of farming operations with annual sales above $100,000 received two-thirds of farm program payments.

In calendar 2001, government payments are projected to decline about $8 billion to slightly over $14 billion. This forecast does not include any supplemental aid for 2001 crops, since legislation authorizing supplemental assistance for 2001 crops has not been enacted by Congress. Scheduled annual reductions in PFC payments under the 1996 Farm Bill and lower loan deficiency payments, reflecting improving prices for major crops, are forecast to reduce government payments by $2.5-$3.0 billion in 2001. In addition, with no supplemental aid legislation in place for the 2001 crops, emergency assistance to farmers and ranchers is projected to fall from nearly $9 billion last year to about $3.5 billion in 2001. The $3.5 billion in emergency assistance was authorized by Congress last year to offset crop and market losses in 2000 and will be dispersed in 2001. The farm income situation in 2001 is not unlike that in recent years, although this year some of the drop in government payments is expected to occur through lower loan deficiency payments that will be made up in greater returns from the market.

The major field crops have been having particular market difficulty the past few years. Net cash farm income on a crop year basis for the major field crops--wheat, rice, corn, sorghum, oats, barley, cotton and soybeans--excluding government payments was low for the 1999-2000 crops and projected to remain low for the 2001 crops. Direct government payments accounted for three-fourths of net cash income for major field crops in 1999 and more than two-thirds in 2000. For 2001, net cash income for major field crops is projected to fall by over $5 billion, declining from over $25 billion for the 2000 crop to less than $20 billion. The decline in net cash income between 2000 and 2001 is slightly less than to the amount of market loss assistance Congress authorized last year for major field crops. Absent new legislation, the regions and crops that have been dependent on government payments are likely to see the greatest decline in farm income in 2001.

Outlook for Farm Finance

A national farm financial crisis has not occurred in large part due to record government payments and greater off-farm income. Farm numbers have been fairly stable in recent years--the proportion of nonperforming farm loans has risen only slightly, the debt-to-asset ratio remains at about 16 percent, down from 23 percent during the farm financial crises of the mid-1980s, and farm real estate values and land rental rates generally continue to rise. In 1999, U.S. farm land values rose 3 percent nationally and were up in 42 states, and cash rents paid for 2000 were up in 40 states. Bankers in the Chicago Federal Reserve District reported that land values in the district rose 7 percent over the 12-month period ending on October 1 of last year.

While the national picture appears secure, regional and sector problems persist. The combination of low prices and structural change have caused the number of dairy and hog operations to decline and adverse weather in the Southeast, southern plains and elsewhere has contributed to regional pockets of farm financial stress.

Farm debt rose 2.4 percent in 2000, surpassing $180 billion for the first time since 1984. In 2001, farm debt is forecast to increase to slightly under $183 billion. As a percent of the value of farm

assets, farm debt is expected to remain unchanged from last year's 16.1 percent. Even though farmers' balance sheets are much improved from the mid-1980s, a projected drop in farm income will reduce farmers' ability to repay existing debt.

A useful indicator of financial stress is debt held by farms as a percentage of the maximum feasible debt that farms can take on, which is referred to as debt repayment capacity utilization (DRCU). Maximum feasible debt is a calculation based on net farm income, the interest rate, an assumed 7-year average repayment period for debt, and bankers' guidelines on the maximum level of income that should be used for principal and interest. In 2000, U.S. farmers, on average, used a little over 60 percent of their maximum feasible debt and this figure is forecast to increase to 65 percent in 2001. Although the DRCU in 2001 would be the highest since 1986 and the level has been rising steadily in the 1990s, it is forecast to remain about half that of the 1984-85 farm credit crisis period.

DRCU may be taken a step further by looking at how this measure of debt stress is distributed among farming operations. A commercial farm business is an operation that sells at least $50,000 in farm products per year. Of the 2.2 million U.S. farms, about one-quarter, or 512,000 farming operations, sell at least $50,000 in output per year. These farms account for 90 percent of total U.S. production.

Commercial farms that cannot service their debt and stop performing on their loans usually have debt equal to 240 percent or greater than their maximum feasible debt. In 1998, the number of farming operations in this category rose, but the number fell in 1999. The weak markets probably led producers to use government payments to pay down debt. In both 1999 and 2000, about 50,000 of the nation's 512,000 commercial farm businesses had DRCU of 240 percent or more. In 2001, the number of commercial farming operations with DRCU of 240 percent or more is forecast to increase to 70,000.

The most obvious reason we haven't seen more of an increase in farm financial stress is record-high government assistance to farmers. In addition to record government payments, another reason a national farm financial crisis has not materialized is the strong nonfarm economy which has helped increase off-farm income opportunities for farm households. Earnings of farm operator households from off-farm sources averaged an estimated $60,000 in 2000, up from less than $36,000 in 1992. In recent years, about 90 percent of the total income of the average farm household comes from off-farm sources, and the average income, including income from off-farm sources, of farm operator households has been above the average for all U.S. households. Off-farm jobs in rural areas are a major factor in why the number of farms has stabilized at 2.2 million in the 1990s.

Outlook for Major Crop and Livestock Commodities

Government programs and farmers' planting decisions. For the most part, PFC payments authorized under the 1996 Farm Bill are not affected by the amount of acreage a farmer plants to a particular crop and not linked to the level of market prices. Because PFC payments are essentially decoupled from current production and prices, it can be argued that they have very little if any measurable influence on farmers' planting and production decisions. In response to the increase in planting flexibility in the 1996 Farm Bill, producers have greatly expanded soybean plantings and reduced wheat plantings–soybean planted area was up nearly 25 percent in 2000 and wheat planted area was down about 12 percent in 2000, compared with the 1990-95 average. Plantings of corn and cotton in 2000 were up about 5-10 percent, compared with the 1990-95 average, with the increase

likely reflecting both increased planting flexibility as well as the elimination of annual commodity acreage reduction programs under the 1996 Farm Bill.

The 1996 Farm Bill capped price support loan rates for wheat, corn, rice and upland cotton at the level announced for the 1995 crop. Meanwhile, loan rates for soybeans and other oilseeds were also capped but at a rate 7 percent above the 1995-crop level. For the 1996-2001 crops, the Secretary chose to announce loan rates for wheat, corn, upland cotton, and soybeans at the maximum level permitted by Congress, contributing to the increase in oilseed plantings since 1995. With loan rates set at the maximum level allowed, loan deficiency payments and marketing loan gains increased sharply from less than $200 million for the 1996 and 1997 crops, to $3.8 billion for the 1998 crop, to nearly $8 billion for the 1999 crop and projected to be $6-$7 billion for the 2000 crop, reflecting the abrupt decline in major crop prices over the period. Because these payments are made based on current production and prices, they affect farmers' planting and production decisions. It is estimated marketing loan benefits in the form of marketing loan gains and loan deficiency payments increased plantings to the eight major crops by 4-5 million acres in 2000.

Outlook for Major Crops. Major crop prices for the 2000/01 season are expected to register modest improvement from last year's 15 to 25 year lows, reflecting another year of large global production of major crops and ample stocks. Given no major weather disruptions in the major crop growing regions of the world, further expansion in global demand for agricultural products is expected to lead to further improvement in major crop prices over the next several months and into the 2001/02 marketing year. While it is too early to predict a substantial recovery in major crop prices in 2001, global stock levels going into the 2001 season are projected to be down sharply from a year earlier. At the end of this season, global grain stocks are projected to be down13 percent from a year ago and the lowest since 1995/96. As a result, world prices could move up sharply if weather adversely affects global crop production over the next several months.

In 2000, U.S. producers planted the lowest ***wheat*** acreage since 1973. Wheat prices this marketing year are projected to average $2.60-$2.70 per bushel, up from last season's $2.48. The projected increase in wheat prices this marketing year reflects lower total supplies, increasing total use, and declining carryover stocks. Total supplies are off about 2 percent from one year ago, primarily due to a drop off in winter wheat yields in Colorado, Kansas, Nebraska, and Texas. Total use is forecast to increase by 39 million bushels over last year's nearly 2.4 billion bushels, as food use, feed use, and exports are all expected to register gains. Wheat exports are projected to reach 1.1 billion bushels, the highest since the 1995/96 season, as weather reduced the quality of wheat in the European Union and Australia. Ending stocks are projected to fall for the second consecutive year from 950 million bushels at the end of last season to 839 million bushels at the end of this marketing year.

Looking ahead to the 2001/02 marketing year, which begins on June 1, a further decline in winter wheat acreage will likely push total U.S. wheat acreage and wheat production lower. Farmers have responded to the planting flexibility provisions of the 1996 Farm Bill by planting less wheat and more oilseeds. Winter wheat plantings last fall were down 5 percent from a year earlier and the lowest since 1971. In addition, lack of soil moisture could push winter wheat yields below last year. Reduced wheat supplies in 2001/02 could lead to another year of reduced carryover and improving farm prices.

The 2000/01 ***corn*** crop of 9.97 billion bushels is up from last year's crop of 9.43 billion bushels and the second highest on record, as growing conditions were generally quite favorable for much of the Midwest. Average yield per acre of 137.1 bushels per acre nearly matched 1994's record

of 138.6. With total supplies are up sharply from one year ago, ending stocks are forecast to increase nearly 200 million bushels over last season's 1.7 billion bushels. Total corn use this season is projected to reach a record 9.8 billion bushels, compared with last season's 9.5 billion bushels, as domestic use is expected to increase 2 percent and exports increase 6 percent from a year ago. The increase in domestic use reflects both higher corn feeding and higher industrial use of corn for ethanol production, which reached a record high of 1.6 billion gallons in 2000. Foreign corn production is down about 9 percent this season leading to much improved export prospects for U.S. corn, despite concerns about the presence of StarLink by some importers. Exports are forecast to reach 2.05 billion bushels, the highest since 1995/96. The farm price of corn for the 2000/01 marketing year is projected to average from $1.70-$1.90 per bushel, compared with last year's $1.82 per bushel.

In 2001, higher natural gas prices will increase corn producers' fertilizer and irrigation costs. These higher costs are expected to lead to reduced corn plantings in 2001. Assuming normal weather, lower acreage coupled with another year of good export opportunities supported by continued global economic growth and expanding ethanol use could tighten ending stocks, strengthening market prospects for corn in 2001/02.

Soybean plantings of 74.5 million acres in 2000 exceeded the previous record of 73.7 million acres in 1999. Soybean production was also record high in 2000, reaching nearly 2.8 billion bushels and up 4 percent from a year earlier. The increase in soybean production more than offset lower carry-in stocks causing total soybean supplies to increase about 2 percent in 2000/01. Most of the increase in total supplies is expected to be reflected in higher carryover stocks, as total use is forecast to be up slightly from last year's record. Domestic crush is forecast to be up about 1 percent from last year, equaling the record set in 1998/99. Abundant South American exports, somewhat weaker Chinese imports, and only a modest decline in the value of the dollar will likely push U.S. soybean exports somewhat below last year's record. Soybean prices for 2000/01 are projected to average $4.50-$4.80 per bushel, compared with last season's $4.63.

Less fall planted wheat, higher fertilizer prices, planting flexibility, and the benefits of the soybean marketing loan program provide an incentive for producers to further expand soybean plantings in 2001. Assuming normal weather, higher acreage could lead to another year of record soybean production and another year of rising carryover, even though total use could also reach another record in 2001/02. The EU's ban on the use of meat and bone meal in animal feeds could raise soybean meal exports, but foreign competition is likely to remain intense. Under the pressure of rising stocks, soybean prices could face additional pressure during the 2001/02 marketing year.

Drought caused significant crop losses in some areas of the country in 2000, especially ***cotton*** in the southern and central Great Plains. Even so, cotton production was up 1 percent in 2000, resulting in the largest cotton crop in 3 years. Despite abundant current-year supplies, U.S. cotton mill use is projected to decline from last season's 10.2 million bales to 9.7 million bales, as textile imports continue to grow. U.S. cotton exports are forecast to reach 7.0 million bales during 2000/01, up 4 percent from last year. Lower foreign cotton production and improving world demand are projected to boost cotton exports this season. From August through December, the farm price of cotton averaged 56 cents per pound, compared with last year's season average price of 45 cents.

The National Cotton Council's recent survey of planting intentions suggests a slight increase in cotton plantings in 2001. Despite the expected increase in production, price prospects could improve, especially if China's supply of exportable cotton continues to decline.

Rice production in 2000 fell 7 percent from last year's record of 206 million cwt., as acreage declined 13 percent but yield per acre reached a record 6,278 pounds. Both total supplies and total use are projected to fall in 2000/01. With the drop in total supplies exceeding the drop in total use, total carryover stocks are projected to fall from last season's 27.5 million cwt. to 24.6 million cwt. at the end for this season. Rice exports are projected to decline from nearly 89 million cwt. in 1999/00 to 81 million cwt. in 2000/01. Through December, total commitments were behind a year earlier to the European Union, Japan, and Saudi Arabia. This season the price of rice is forecast to average $5.50-$5.90 per cwt., compared with last season's $5.93. Lower prices could lead producers to further cut rice plantings and production in 2001.

Large ***sugar*** production in 1999/00 resulted in large forfeitures of sugar to the CCC last year. In order to reduce government inventories of sugar and prevent additional forfeitures, USDA announced a Payment-in-Kind (PIK) Program for 2000-crop sugar under which producers could elect to divert a portion of their contracted acreage from production in exchange for in-kind payments. Payments under this program are projected to reduce CCC stocks of sugar to slightly under 800,000 tons on October 1. Import commitments under existing international trade agreements could pressure sugar prices, leading to additional forfeitures and CCC stock accumulation over the next several years unless producers reduce production.

Outlook for Livestock and Poultry. U.S. red meat and poultry production continues to increase slowly, posting a 1-percent gain in 2000. In 2001, the gain in meat production is expected to be even smaller as beef production declines following several years of heavy heifer slaughter. Even though total red meat and poultry production reached a record 36.4 billion pounds last year, cattle and hog prices were much improved. In 2001, declining beef production is expected to push cattle prices higher, while increasing pork production could pressure hog prices, especially in the last quarter of 2001. Some recovery in milk prices is also expected as the surge in milk production over the past two years dissipates. Livestock, poultry, and dairy producers should benefit from another year of low feed costs.

In 2000, ***hog*** prices averaged $44.70 per cwt. for the year, up 31 percent from a year earlier. Responding to the low returns of the past couple of years, producers began to reduce their breeding herds in late 1998 and continued to reduce them in 1999 and through much of 2000. In response to continuing herd liquidation, pork production fell by 2 percent in 2000. However, responding to improved returns, producers began increasing farrowings at the end of 2000. The number of sows farrowing during September-November rose 1 percent, and producers in December indicated intentions to increase farrowings by 2 percent during December-May. The increase in farrowings is expected to cause pork production to rise about 2 percent in 2001. Hog prices are forecast to average $40-$42 per cwt. in 2001, but rising hog and poultry production could push hog prices to the mid-$30 range during the fourth quarter.

Cattle prices are projected to be up about 7 percent higher in 2001, after posting a 6 percent gain last year. In 2001, liquidation of the nation's cattle herd is expected to finally lead to reduced beef production. In 2000, lower cattle and calf numbers did not translate into less beef production, as record slaughter weights and reduced forage supplies due to dry weather led to record beef production. Beef production will remain large during the first six months of 2001, as cattle on feed inventories continue above year-earlier levels. Cattle on feed on January 1 were up 3 percent from a year earlier, and heifers on feed were also up 3 percent. During the second half of 2001, higher cattle

prices and low feed costs should provide an incentive for producers to reduce heifer slaughter and begin rebuilding the cattle herd. Reduced placements of cattle on feed is expected to lead to a 6-percent decline in beef production during the last half of 2001. For all of 2001, beef production is forecast to be down 4 percent, with choice steer prices averaging $72-$77 per cwt. Not since 1993 has the price of choice steers averaged above $70 per cwt.

Broiler prices in 2001 are projected to be about unchanged from last year after falling 3 percent in 2000. In response to continued low prices through most of 2000, broiler producers have begun to reduce the rate of expansion. In 2000, broiler production rose 2.5 percent which followed a 7 percent increase in 1999. In 2001, broiler production is forecast to increase by 2 percent. Broiler exports continue to show considerable strength. In 2001, broiler exports are forecast to reach 5.7 billion pounds, up 3 percent from last year and 16 percent from two years ago. Over the first 11 months of 2000, shipments to Russia totaled 1.26 billion pounds, 94 percent higher than a year earlier. Shipments to Hongkong/China were up 18 percent over the same period.

Increasing ***milk*** production caused milk prices to collapse at the end of 1999, as producers responded to two consecutive years of high milk prices and low feed costs. For all of 2000, the all-milk price averaged $12.34 per cwt., a 9-year low and down from $14.38 in 1999 and the record of $15.46 in 1998. These strong milk prices coupled with low feed costs and favorable weather in most areas of the country caused producers to expand milk production by over 3 percent in both 1999 and 2000. In response to the collapse in milk prices, Congress authorized payments of $0.65 per cwt. to dairy producers on production of up to 39,000 cwt. last year and extended the price support program for milk through the end of this calendar year. Extension of the price support program along with the surge in milk production and a desire to maintain dairy producers' incomes has led to the largest government purchases and inventories of nonfat dry milk since the mid-1980s. On January 1, the CCC held 626 million pounds of nonfat dry in inventory. The sharp decline in milk prices this past year should begin to reduce the rate of expansion in milk production and lead to improved milk prices in 2001. The all-milk price is forecast to increase by about 5 percent in 2001 but to continue to remain below the average of the 1990s.

The outlook for ***horticultural crops*** is very uneven. As group, cash receipts are projected to be up in 2001 and the value of exports is forecast to reach a record $11 billion in FY 2001. However, prices for some horticultural crops are being adversely affected by large supplies. For instance, the prices of applies, oranges, pears, and potatoes were down nearly one-quarter, and the prices of lemons and grapefruit were off 60-70 percent in January, compared with 1 year ago.

Longer term Outlook

Over the next several years, the agricultural sector is expected to continue to recover from the current weak market situation. Rising world demand for agricultural products along with continued progress toward freer trade through ongoing unilateral policy reforms in foreign countries and existing multilateral trade agreements are projected to lead to steady increases in U.S. agricultural exports. Increases in exports combined increases in domestic use boost farm cash receipts, but farm income could fall below recent levels during the next few years, as gains in cash receipts fail to offset lower government payments. In the absence of any new supplemental assistance, government payments are projected to fall sharply from recent levels over the next couple of years. Government payments also fall because projected increases in market prices for major crops reduce loan deficiency payments.

Cash production expenses are expected to stabilize over the next couple of years as fuel prices moderate slightly but fertilizer and chemical expenses rise, reflecting the lagged effects of higher petroleum prices and modest increases in planted area. If declining government payments are not offset by rising market income and off-farm income, farm finances may come under stress. Beyond the next few years, the outlook for the farm sector improves as expanding exports further strengthen farm commodity prices and increases in farm income and farm asset values help to moderate farm financial stress.

Mr. Chairman, that completes my testimony and I would be pleased to respond to questions.